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UNCLAS SECTION 01 OF 04 ASTANA 002255

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SUBJECT: KAZAKHSTAN: CASPIAN MARITIME TRADE AND TRANSPORTATION

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ASTANA 00002255 001.3 OF 004

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: This report summarizes international donor efforts to promote Caspian maritime trade and transportation, including projects to bring Kazakhstan's maritime legislation in line with international standards, improve vessel safety and security, increase oil transportation by tanker, and develop capacity and expertise in the government of Kazakhstan and Kazakhstani-flagged vessels. END SUMMARY.

#### CASPIAN MARITIME TRADE

¶3. (SBU) Kazakhstan's Caspian maritime trade is carried out via its only international commercial seaport in Aktau. According to Talgat Abylgazin, director of the Aktau seaport, the port plans to ship 14 million tons of goods in 2009, up from 10 million tons in 2008. The current annual transshipment capacity of the Aktau seaport is 1.5 million tons of general cargo and over 10 million tons of crude oil and petroleum products.

#### KAZAKHSTAN CASPIAN TRANSPORTATION SYSTEM (KCTS)

¶4. (SBU) Donor and corporate interest in improving safety, security, and skills on Caspian maritime transportation is driven by the expectation that Kazakhstan will double its oil production over the next 10 years. It thus must increase its oil-transportation capacity, including the use of oil tankers from Kuryk to Baku.

¶5. (SBU) KazMunaiGas-Transcaspian (KMG-TC), a wholly-owned subsidiary of national oil company KazMunaiGas (KMG) is responsible for the development of trans-Caspian maritime transportation of oil from Kazakhstan. On December 9, its newly-appointed General Director Berik Tolumbayev described ongoing negotiations with the Kashagan consortium to build the trans-Caspian maritime

transportation project (KCTS), including oil terminals in Kazakhstan's port of Kuryk and in Azerbaijan, at or near Baku. Tolumbayev said that KMG-TC will conduct an open tender in January 2010 to select a company to conduct the feasibility study for the project. He indicated that the leading candidates include U.S. company J. Ray McDermott. KMG-TC and national maritime company KazMorTransFlot (KMTF) both expressed interest in a vessel-tracking system to monitor and manage the growing fleet of vessels plying the Caspian. KMTF pressed the U.S. Trade and Development Agency (USTDA) for assistance to develop a national training plan to prepare Kazakhstani officers and crews.

¶6. (SBU) On December 11, Vasily Svistak, Kazakhstan Business Development Manager for the American Bureau of Shipping (ABS), told Energy Officer that "all options will be considered and the best option will be chosen (for KCTS). It can be 60,000 deadweight (dwt) shuttle tankers, or 20,000 dwt barges, or any other vessel for oil transportation." He mentioned the preference of KMG and the State Oil Company of the Azerbaijan Republic (SOCAR) to work with a large, experienced company or consortium, which could deliver a global solution to oil transportation issues, including the construction of two new oil terminals, shuttle vessels, shipbuilding facilities, and other related infrastructure. Svistak asserted KMG would not want to work with a small company that could build vessels or terminals only.

#### USTDA SUPPORT FOR MARITIME TRANSPORTATION

¶7. (SBU) USTDA has funded two grants for approximately \$350,000 each to increase maritime trade and transportation in the Caspian. Tenders have been announced for the selection of a U.S. company to carry out the terms of reference, and the projects are expected to begin by March 2010. The first grant was awarded to KMG-TC to bring

ASTANA 00002255 002.3 OF 004

Kazakhstan's maritime legislation in line with international standards by defining the international treaty accessions, maritime laws, and regulations that Kazakhstan must implement.

¶8. (SBU) The second USTDA grant was awarded to KMTF to facilitate clearance of vessels at Caspian ports by evaluating the technical, economic, and financial feasibility of implementing the Electronic Documentation Procedure or Early Departure Procedure (EDP). Implementation of this procedure will reduce time spent on documentation processes, thereby increasing efficiency at existing Caspian ports and reducing transportation costs.

#### NORWEGIAN SUPPORT FOR MARITIME SAFETY

¶9. (SBU) The Norwegian Ministry of Foreign Affairs is funding a Det Norske Veritas (DNV) project to draft framework regulations related to health, safety, and environment (HSE) for offshore petroleum activities in Kazakhstan. It aims to introduce a modern safety regime for petroleum activities related to exploration, development, operations, decommissioning, and removal in connection with sub-sea petroleum deposits in the Caspian Sea under Kazakhstan jurisdiction.

¶10. (SBU) The Norwegian Ministry of Foreign Affairs also may fund a gap analysis by DNV on Kazakhstan's maritime educational and legislative needs. The Norwegian Embassy and DNV currently are discussing this project with the Ministry of Transportation and Communications. The program would enable Kazakhstan to provide training programs that would lead to internationally-accepted certificates. It would analyze Kazakhstan's legislative compliance with international conventions and International Maritime Organization (IMO) standards, including the quality of training programs, certification, and watchkeeping approved by maritime training institutions.

#### OSCE WORKSHOPS ON OIL SPILL RESPONSE

¶11. (SBU) The Organization for Security and Cooperation in Europe (OSCE) is assisting a Kazakhstani government interagency commission on oil-spill preparedness. The OSCE and Ministry of Emergency Situations held a regional workshop in October, which focused on

national contingency plans. The OSCE also organized a November 12 workshop in Astana on IMO conventions to prepare for negotiations on the Oil Pollution Incidents protocol to the Teheran Convention (ref B). The OSCE has financed a series of projects to support implementation of the Aarhus Convention (ref C), including training judges in the Caspian region on environmental issues. On September 21, the OSCE signed a Memorandum of Understanding with the Akimat (office of the governor) of Atyrau Oblast, the NGO Ecoforum, and the Ministry of Environmental Protection to open a new Aarhus Center in Atyrau, the first of its kind in Kazakhstan.

#### THE EUROPEAN COMMISSION'S INOGATE PROGRAM

¶12. (SBU) As part of the enhancement of environmental protection measures in Central Asia's oil and gas industry, the European Union's INOGATE project is writing a revised national oil spill plan with the Kashagan consortium and the Oil Spill Preparedness Regional Initiative (OSPRI). INOGATE also is using international examples of best practice to develop recommendations on environmental legislation for Central Asian states.

¶13. (SBU) The European Commission is funding a project to improve maritime safety and reduce ship pollution in the Black and Caspian Seas. Mott MacDonald, Ramboll, Tethys Environmental Consulting, Oil Spill Training Company Ltd., and Milieu Ltd. are implementing the project, which will provide technical support to Kazakhstan on the IMO convention implementation and will include 2010 training events in Aktau on ship inspection procedures and other issues. The project will assess and support the organization of a National Maritime Administration. It will also examine the needs and priorities for vessel traffic systems at ports. Project experts

ASTANA 00002255 003.3 OF 004

will prepare and implement a training plan in coordination with the relevant training institutes in Kazakhstan. They will provide additional training programs in port inspection, ship safety, ship and port security, waste management at ports, and oil pollution preparedness and response.

#### DONOR COORDINATION EFFORTS

¶14. (SBU) UK government-funded Caspian maritime project brought together oil companies, shippers, classification societies, IMO, and the governments of Azerbaijan and Kazakhstan. The project's results included endorsement of IMO rules for Caspian tanker traffic, commitments to fund crew training events and publish official Russian-language translations of international maritime manuals. The British Embassy also agreed to coordinate international donor support.

¶15. (SBU) On July 16, the Ministry of Transportation and Communications established a coordination group to discuss Kazakhstan's maritime educational needs. The Ministry agreed to invite international oil companies (IOCs), shippers, and classification societies to join this group. Relevant authorities approved the Ministry's action plan for maritime personnel development, which then was sent to classification companies, IOCs, and shippers.

#### TRAINING MARITIME CREWS IS THE NUMBER ONE PRIORITY

¶16. (SBU) On December 9, KMTF Deputy General Director Sherkhan Sugurbekov told USTDA that the shortage of qualified captains, officers, and crew members seriously concerns KMTF. He said that on January 1, 2010, Article 25 of the Law on Maritime Shipping will come into effect, requiring that all crew members on Kazakhstani-flagged vessels must be Kazakhstani citizens. KMTF said that currently only 40% of all crew members are residents of Kazakhstan, and only 17% of captains and officers are Kazakhstani.

¶17. (SBU) KMTF also reported that Chevron remains very much interested in funding a maritime academy in Kazakhstan, and has earmarked up to \$25 million for the project. Unfortunately, however, KMTF said the funds will not be released until resolution of pending sulfur fines and fees (ref D).

## STRIVING TO MEET INTERNATIONAL STANDARDS

¶18. (SBU) On January 14, 2010, Kazakhstan's parliament will host a roundtable on marine-transportation issues, with presentations from industry experts, such as Chevron's Kjell Landin and the UK's Caspian Energy Advisor Angus Miller. This roundtable will review amendments to Kazakhstan's existing Law on Merchant Shipping. These amendments are designed to ensure Kazakhstan full compliance with international norms, such as the IMO conventions. Effects of the proposed changes include the regulation of shipping companies, hiring of crews, customs clearance of vessels, and sanitary inspections.

¶19. (SBU) KMTF's Sugurbekov relayed to Energy Officer his concern that members of parliament lack a clear understanding of, or vision for, the development of maritime transportation. He said, "They find it difficult to make decisions, because they can hardly imagine the practical impact of changes to the Law." He also highlighted members' numerous questions about the need to comply with international maritime conventions. He attributed this situation to the fact that Kazakhstan is a "young maritime country," but he asserted it must improve its management of maritime transportation.

## SAFETY AND SECURITY

¶20. (SBU) On December 9, Kairiden Nurkenov, Director of Water Transportation at the Ministry of Transportation and Communications, told USTDA that the Ministry's top priority is to ensure that Kazakhstani crew members receive proper, internationally-recognized

ASTANA 00002255 004.3 OF 004

training courses. Nurkenov expressed interest in a USTDA-funded feasibility study to implement a vessel-tracking system, and conveyed Kazakhstan's plans to deploy a basic system at the ports of Kuryk and Bautino. Kazakhstan also has a regional rescue-operation system along its 800-kilometer shore line, which contains three stations and dozens of transmitters. This system allows the Ministry to discover possible oil spills, but not to conduct actual rescue operations.

¶21. (SBU) Yerlan Jumashev, Director of Water Transportation Control at the Ministry of Transportation and Communications, expressed the Ministry's urgent need to evacuate sunken vessels in the Caspian Sea. They pose a danger to current vessels and the new, larger oil tankers expected to be used after Kashagan begins production in ¶2013.

¶22. (SBU) COMMENT: Because the Caspian Sea represents Kazakhstan's only access to international maritime trade, the government greatly appreciates donor assistance to address gaps in maritime legislation, skills, and expertise, as well as environmental safety. The wide range of existing and planned projects demonstrates Kazakhstan's commitment to work with U.S. and European donor organizations to bring its maritime operations in line with international standards and increase maritime trade activity. However, given the need to develop entirely new laws, procedures, equipment, vessels, and crews from scratch, it may take years before the land-locked country of Kazakhstan becomes a world-class maritime trading partner. END COMMENT.

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